



ENVIRONMENTAL STRATEGIES

## **Providing Business Value**

### ***Valuing Environmental Risk Management Departments***

Kenny Ogilvie, Senior Vice President

Environmental Strategies Corporation

[kogilvie@escpa.com](mailto:kogilvie@escpa.com)

[www.environmental-strategies.com](http://www.environmental-strategies.com)

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## **Goals of This Session**

- What is the cost/benefit relationship between investment in environmental risk management and return on that investment?
- How does a company measure the return from environmental management investments?



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**Why are we talking about  
valuation of environmental risk?**



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To discuss how an  
environmental risk  
management department  
can increase profitability  
and decrease overall cost.



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Environmental Liability Can Hurt

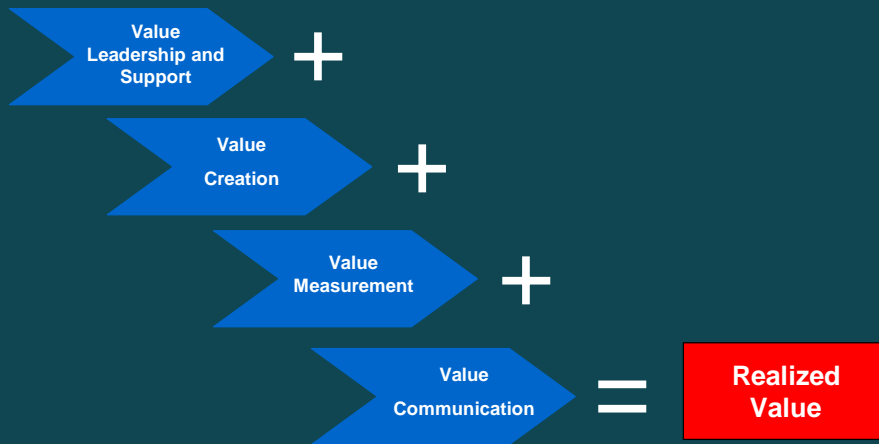


# Environmental Liability



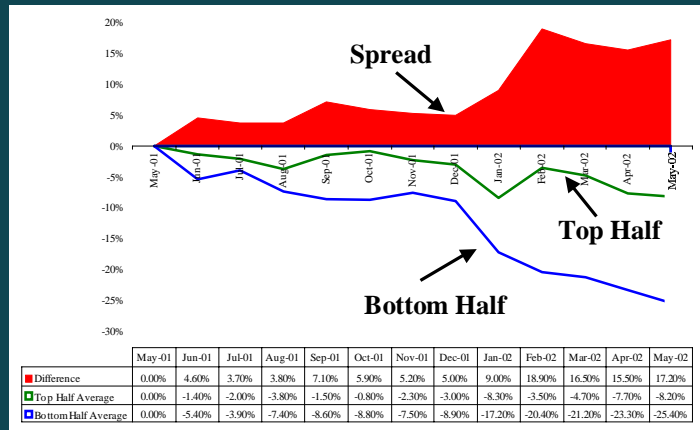
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## Logical Path to Realized Value



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# Industry Success Measurements



## Pharmaceutical Industry

*(Those companies that tend to over-perform from an environmental perspective tend to outperform the market)*

Source: Innovest Strategic Value Advisors



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Identify your objective



Where do we start?



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Demonstrate Environmental Risk in Business Terms



What management wants?



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This is a Dung Beetle



What management gets?



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Communication is Critical



Why management gets what it gets?



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Be a Leader



What the environmental risk manager should do?



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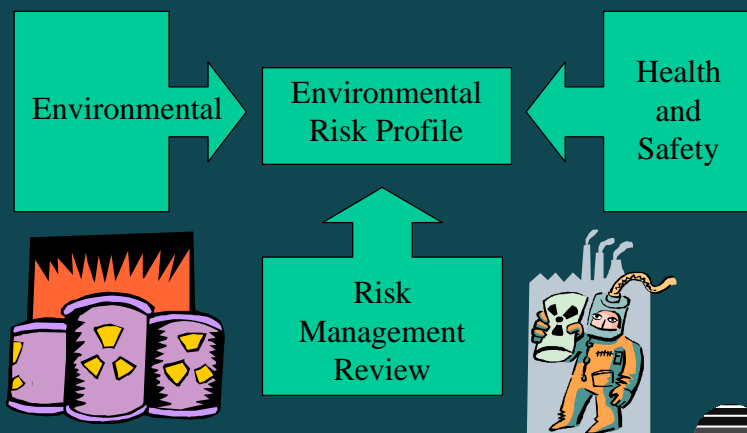
## What is Environmental Risk?

- Webster's Definition
- Why is it important?
  - Scares senior management
  - Can greatly affect the decision making process
  - Big issue in business acquisitions and divestitures
  - Management wants environmental risk quantified and minimized, cost effectively
  - Not often addressed because of a fear of what you might find, the time frame to complete the review, and the cost to conduct the evaluation



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## Environmental Risk Profile



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## How Do You Measure Environmental Risk?

- Agree to the assumptions and ground rules before you start
- Have a process that is consistent, reproducible, and defensible
- Use a business process with business tools
- Ask the right questions
- Be innovative and creative



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## Hint: Techniques to Value Intangibles Are Essential

- Relative Value
- Balanced Scorecard
- Competency Models
- Subsystem Performance
- Benchmarking
- Business Worth
- Business Process Auditing
- Brand Equity Valuation
- Calculated Intangible Value
- Micro lending
- Colorized Reporting
- Knowledge Bank

Executive Briefing, "CFO's Guide to Intellectual Capital"  
<http://www.montague.com/le/le1096.html>



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## Warm Up Case Study

- Objective – Protect the company from future potential EPA/OSHA citations and fines
- Strategy/Protection Measure - Audit and compliance management programs
- Outcome Measure – Reduction in inspections, citations, notices of violation and deficiency, and fines
- Output Measures - Numbers of fines, citations, audit findings, closure of findings, percent compliance
- Efficiency Measures – Cost per citation/fine, number of days to respond to audit findings
- Explanatory Measure - How many corporate groups involved in responses



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## Risk Evaluation Case Study

- Buyout of a Joint Venture Agreement
- Several hundred sites
- Varying degrees of cleanup liability
- Co-mingled cleanup liabilities
- Stranded assets
- Difficult agreement



Artist: Christian J. Walter

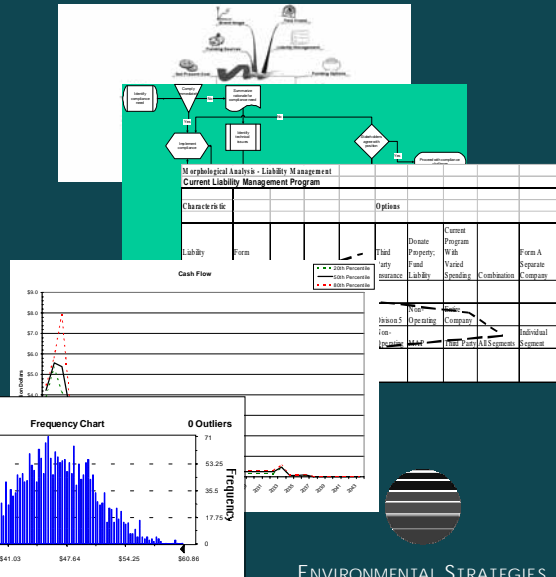


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# Risk Evaluation Case Study

## Business Process Approach

- Agreed on Assumptions
- Mindmapping
- Process Diagramming
- Morphological Analyses
- Cost Modeling
- Crystal Ball Analyses

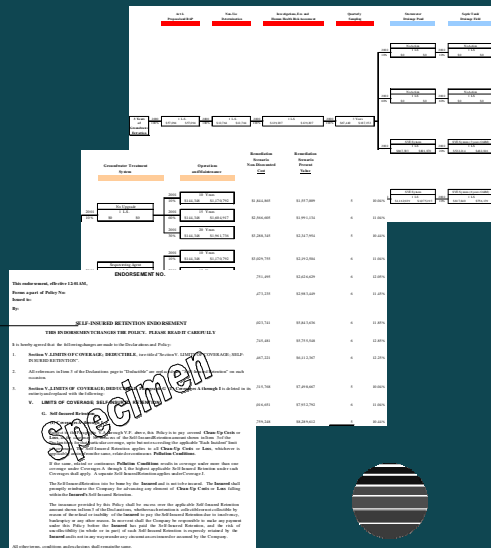


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# Risk Evaluation Case Study

## Risk Management Evaluation

- Decision Tree/Probability Mapping
- Risk Transfer
- Insurance Mechanisms
- Special Purpose Entities/Runoff Company

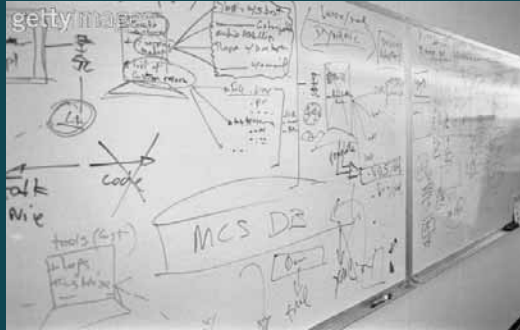


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# Risk Evaluation Case Study

## Lessons Learned

- Get stakeholders involved early
- Use a business process
- Make sure everyone agrees on the ground rules and assumptions
- Be consistent and reproducible
- Communicate concisely
- Be creative



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# Presenting the Results

- Define the results in terms management can understand
  - How was liability identified and quantified
  - What are the priority liabilities
  - What are the specific objectives, targets, plan of action, and assumptions
  - What are the varying degrees of liability
  - What are the costs, timeframes for cash flow, and probability of occurrence
  - What are the options and your recommendations with levels of risk management



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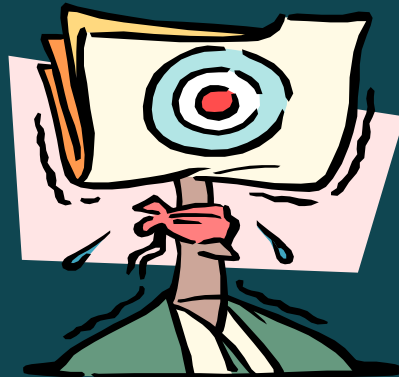
## Goals of This Session

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## Questions?



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